

UNITED STATES OF AMERICA

BEFORE THE

DEPARTMENT OF ENERGY

Interstate Electric Transmission System) Electric Reliability Issues

Notice of Inquiry

**COMMENTS OF NORTHEAST UTILITIES
(January 4, 2001)**

I. Introduction

Northeast Utilities (“NU”) appreciates this opportunity to submit the following comments in response to the Department of Energy’s (“DOE”) Notice of Inquiry on Electric Reliability Issues.¹

NU is a registered holding company under the Public Utility Holding Company Act of 1935. Through its operating company subsidiaries, NU serves approximately 1.7 million customers in three New England States - Connecticut, Massachusetts and New Hampshire. NU has been among the leaders in restructuring the electric industry. After having participated for nearly 30 years in the New England Power Pool ("NEPOOL"), one of the nation's first tight power pools, NU was instrumental in restructuring that power pool to create a competitive bulk power market with non-pancaked transmission rates. NU also has transferred operational control over a significant portion of its transmission assets to ISO New England, Inc., one of the nation's first ISOs. Retail electric choice is active or scheduled in all

three of its franchise states. NU has divested or is divesting all of its regulated generation assets, and has initiated a growing merchant energy and marketing company. NU is also in the process of working with ISO New England and the other New England transmission owners to comply with the Federal Energy Regulatory Commission's order on Regional Transmission Organizations.

NU is pleased that the DOE is working to address reliability issues during this time of rapid and significant industry change. Legislation is needed to establish the framework and necessary authority for institutions to achieve improved electric reliability. NU supports the comments submitted by the Edison Electric Institute in response to the NOI urging the DOE to focus its efforts on getting reliability legislation passed in the 107th Congress rather than on a rulemaking. However, such legislation will not be sufficient if it does not address the need for a streamlined siting process for new transmission facilities as well as economic incentives to expand the nation's transmission system.

II. Legislation is needed to streamline and expedite the transmission siting process.

NU has first hand experience in the complexity of siting new transmission facilities. NU's transmission providing subsidiaries operate in three separate jurisdictions, each with separate and distinct siting processes.

¹ Department of Energy, Notice of Inquiry, 65 Fed. Reg. 63753 (November 20, 2000)

Local control over transmission siting can slow transmission expansion efforts. Expedited siting approval for new transmission investments is critical to the development of an efficient, market-driven transmission system. Currently, generation enjoys an advantage in timing as new plants are sited, permitted, and constructed in 2 to 3 years. Transmission expansions, particularly those that involve more than one state, take 7 years or more to site, permit, and construct. The result of this timing differential could be a market in which additional generation is routinely built, overall utilization of generation is lower, and the reliability of the transmission system is reduced. Expedited siting approval would also allow markets to choose between transmission expansion and generation expansion on a more economic basis, thus increasing the competitive nature of the electric market.

A DOE rulemaking will not sufficiently address the need for states and local authorities to work together to streamline and expedite the siting process. At the time the Federal Power Act was enacted, electric utilities planned, designed, built and operated efficient and reliable energy delivery systems to support generation sources they owned and operated. These delivery systems were located in relatively close proximity to the utilities' customer base. Today, generation suppliers can be more remote from the customer base and they do not own or operate the delivery system. In effect, industry restructuring has allowed the electric transmission system to begin to operate more like the natural gas pipeline system, which has always served remote customers. It follows, therefore, that federal legislation

similar to that found in section 7 of the Natural Gas Act² is necessary to afford the Federal Energy Regulatory Commission with the requisite authority over transmission siting. NU urges the DOE to include federal siting authority in any reliability legislation it promotes.

III. FERC's existing authority should be clarified and enhanced to allow it the discretion to promote economic incentives to expand the nation's transmission system.

In addition to promoting federal legislation to streamline the siting process, the DOE and FERC should also promote economic incentives to enhance the reliability of the transmission system. Industry leaders and independent analysts agree that not enough transmission is planned to meet the demand, and that incentive policies and regulatory flexibility are needed to encourage significant transmission investment. Investors, however, have been deterred by artificially low transmission rates set by federal regulators, and by new regulatory uncertainties surrounding the formation of "regional transmission organizations" (RTOs).³

Other incentives to promote investment in transmission, such as incentive pricing for new transmission projects, are needed and can be

² 15 U.S.C.A. § 717f (2000).

³ RTOs, if properly organized, could provide a mechanism which can attract new investment in transmission over the long term. However, an emphasis on the speedy development of such structures leaves unresolved the critical issue of how to get new transmission built to ensure a reliable and efficient supply of electricity to an expanding energy marketplace. Only the most efficient regional organizations will be able to respond to market needs in a timely fashion. The current environment of uncertainty indicates that efficient RTOs will take time to develop and still may not fully address the needs of transmission providers who need to react quickly to market forces

implemented now, under FERC's existing authority. However, FERC's authority can be further clarified and enhanced to permit approval pricing that recognizes increased risks faced by transmission providers and rewards transmission investments that enhance reliability, reduce congestion, or use innovative technological solutions to expand the energy markets.

Approved rates of return should recognize the increased risks undertaken by transmission providers in a robust competitive market. Because generation and transmission planning are no longer coordinated in these markets, transmission owners must now accommodate generation that may be sited in less than optimal locations for reliability purposes or that may be operated under differing parameters. Furthermore transmission owners do not have control over generation needed for transmission system support. These factors make ensuring transmission reliability more difficult and operating transmission efficiently more risky.⁴

To the extent that marketers and generators are subject to increased risk in the competitive market, they are seeking to pass some of those risks to transmission providers. There is little incentive to increase the capital program for transmission if providers can only expect to receive ROEs in the range of 10 percent. Accordingly, the DOE can help to ensure that more transmission is built by adopting regulation that encourages the FERC to

⁴ Also, while predominantly a state issue, state mandated retail rate caps, which include transmission, have turned out to be a disincentive to increased investment in transmission. These rate cap jurisdictions, in effect, penalize transmission providers for building new transmission by squeezing distribution rates to fit under the transmission and distribution cap.

approve ROEs that reflect the realities of a competitive electric marketplace and promoting legislation that clarifies and enhances FERC's discretion to promote transmission expansion and allows for regulatory flexibility.

In addition to providing an incentive to build transmission, incentive pricing for transmission can promote competition between transmission and generation, which can replace integrated generation and transmission planning used under the old regulatory regime. Competitive markets depend on information transparency and appropriate pricing indicators to ensure the proper locational configuration of generation and transmission to meet customer demand and ensure reliability. These pricing indicators were severed as part of the industry restructuring process and must be brought together again in some new form of market pricing. If generation price signals alone are given, the system will be skewed in favor of generation which will lead to increased congestion, inefficiency, and decreased transmission reliability.

IV. Conclusion

A reliability-based rulemaking is simply not adequate to afford transmission owners flexibility in pricing and facilitate siting expediency to achieve the appropriate balance of generation and transmission solutions to reliability issues in order to achieve maximum customer benefit and efficiency. Legislation which grants FERC the appropriate authority over

transmission siting and enhances and clarifies FERC's discretion to promote transmission expansion is needed.

Respectfully submitted

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